



# STATE OF CONNECTICUT

## INSURANCE DEPARTMENT

Testimony of the Connecticut Insurance Department  
Before the

Insurance and Real Estate Committee

Tuesday, February 9th, 2010

### House Bill 5011—An Act Extending the Effective Date for Certain Interlocal Risk Management Pools

The Connecticut Insurance Department would like to offer the following comments on House Bill 5011—An Act Extending the Effective Date for Certain Interlocal Risk Management Pools.

#### History

The Municipal Interlocal Risk Management Agency (MIRMA) was formed in January of 2002 under CGS 7-479. At that time the law required a minimum contingency fund (surplus) of \$100,000. At June 30, 2002, MIRMA reported surplus of \$97,888. By June 30, 2004, surplus had steadily deteriorated to a deficit of \$2,228,887.

The Department became concerned with this growing deficit. In early 2005, the Department had several meetings and discussions with MIRMA officers to look at alternatives, one of which was discontinuing operations.

However, on June 2, 2005, the General Assembly passed Public Act 05-65 which amended Section 7-479e to "permit an interlocal risk management pool organized after July 1, 1995 to choose not to maintain a contingency fund as required by current law until July 1, 2010."

The amended statute established a clear schedule for meeting the measurable levels of the required contingency fund. One would presume that MIRMA supported the timetable with a plan to meet the requirements. The amended statute provided five years for MIRMA to eliminate its negative surplus position and to meet the minimum contingency fund requirements.

Since that time the surplus has deteriorated further to a deficit of \$9.7 million. [September 30, 2009 Quarterly Statement]. The December 31<sup>st</sup>, 2009 Quarterly Statement will be available February 15, 2010.

### Current Status

As of the latest published Financial Statement (September 30, 2009), MIRMA has \$5.3 million in liabilities for known claims. That Statement also shows that cash and cash equivalents of \$3.3 million are insufficient to meet those obligations. The Connecticut Insurance Department's concerns relate to the projected inability to pay claims which, absent further contributions and assessments from its members, may leave those injured workers, the employees of the municipalities, school districts and fire districts (who are citizens of Connecticut) without the protection the policies are intended to provide.

An extension of the contingency fund requirement would not address this imminent threat.

### Recommendations

House Bill 5011 seeks a further extension of time for MIRMA to meet its financial obligations to policyholders and to the injured workers who expect to have their claims paid.

We believe that this action would not address the more important issue that is critical to the survival of this association. That critical issue is the availability of cash needed to pay the claims of injured workers covered by the policies issued by MIRMA.

Therefore, the Department recommends that no legislative action be taken at this time. MIRMA is currently not in violation of the contingency fund requirements of section 7-479e. Our interpretation of the statute puts the date for meeting the requirement at June 30, 2011.

MIRMA has developed a plan to implement a contractual provision to assess policyholders. Successful implementation of that plan would serve several purposes including:

1. Raise cash to allow MIRMA to continue to pay claims.
2. Decrease the surplus deficiency.
3. Meet the requirements under current state law, Sec. 7-479e.

On a monthly/quarterly basis we have been monitoring MIRMA's financial position. We will continue to do so. With successful implementation of their plan, along with continued favorable experience and appropriate management action, it is possible that MIRMA would not need an extension of the current statute.

The Connecticut Insurance Department appreciates this opportunity to provide testimony on House Bill 5011.